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EDC'S MAGAZINE FOR CANADIAN EXPORTERS

SUMMER 2008

ExportWise

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Clean Technology

Growing public concern and global demand spark opportunities in environmental niche markets

INSIDE

Potash: Canada's fastest growing export
Free trade brings opportunities in Peru

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UPDATE

2008 Legislative Review of EDC

Every 10 years the Government is required by the *Export Development Act* to initiate a review of this legislation. The process began again in January 2008 with the Government's selection of a consultant, IFC, to conduct public consultations and prepare a report to the Minister of International Trade.

The report will be guided by four themes: 1) the changing global and competitive environment; 2) Canadian business needs and ensuring EDC's ability to meet them; 3) Canadian private-sector financial capacity for trade and risk management and EDC's role in increasing this capacity; 4) EDC's place within government.

IFC embarked on public consultations in May and June with townhall meetings in Vancouver, Calgary, Winnipeg, Toronto, Montreal, Kanata, Halifax and Ottawa. These townhalls were attended by more than 150 representatives of companies, industry associations, the financial community, government and civil society.

In addition, some companies and organizations expressed their views to IFC in private meetings while others made written submissions, including the C.D. Howe Institute, Mackenzie FSG International, Euler Hermes, Minaean International Corporation, the Canadian Chamber of Commerce, the Halifax Initiative Coalition, the Canadian Bankers Association and EDC itself.

The written submissions to the review and summaries of the townhall proceedings are available at **www.edcreview2008.ca**.

EDC's submission to the review, *Anticipating Needs, Delivering Results: EDC in an Evolving Trade Environment*, articulates the importance of trade to Canada's prosperity and what Canadian exporters and investors need from EDC now and in the future.

Anticipating Needs, Delivering Results points out that global trade has changed dramatically since the 1998 review of EDC, with Canadian companies now needing trade finance and risk mitigation services that can help them access new markets and global supply chains.

The submission outlines EDC's central role in the government's trade policy agenda; how EDC complements the trade finance and insurance services available in the private sector by taking higher risks and helping SMEs to grow into larger exporters.

Leveraging private and public sector capacity, expertise, ideas and business networks, EDC enhances overall market capacity and ensures that more Canadian companies have access to the support they need in good times and bad.

These services are delivered through a business model that blends EDC's public policy mandate with commercial business practices.

The submission emphasizes that, working with our customers to understand their changing needs, EDC has responded with new products and services, including support for Canadian Direct Investment Abroad (CDIA) and a variety of new tools for SMEs. But such tools are becoming essential just for survival against the intensifying pressures of global competition, especially under current economic conditions.

Our customers depend on continued access to traditional financing, insurance and bonding services, and are also asking for more support from EDC to respond to their changing needs.

The submission expresses our view that additional clarity and flexibility in EDC's mandate and regulations will position EDC well to work with our partners to anticipate and respond to the needs of Canadian exporters and investors for years to come.

IFC's report and recommendations will be submitted to the Minister by November. Once the report is received by the Minister, it enters a process that will ultimately see it receive parliamentary consideration, and possibly the introduction of new EDC legislation to Parliament.

The review is providing an excellent opportunity for a structured discussion among government, business, civil society and the public on the importance of trade to Canada and EDC's role in expanding it and we are grateful to all those who have participated. ■

The full text of EDC's submission, Anticipating Needs, Delivering Results, is available at www.edc.ca/review2008.

ExportWise

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Amid growing global public concern and demand for clean technologies, some Canadian companies are finding success in niche markets

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Exporting Success Stories

EDC's efforts to promote sustainability include support for environmentally beneficial goods and services such as those that minimize impacts to air, water or soil. These include technologies that reduce energy consumption, recover valuable by-products, and/or minimize waste disposal. Here are a few Canadian companies that have found success in this growing market.

Photon Control Inc. *Burnaby, B.C.*

BY KAREN LAMBERT

To date, measuring devices for emissions have been limited. Photon Control Inc., which designs and manufactures optical-based technology products, has spent the last few years developing a new precision instrument that has the potential to transform the way emissions are measured around the world.

Their proprietary Focus® Probe Meter measures smokestack emissions through optics installed in a probe that has been designed to withstand high heat and pressures when inserted into a flare stack, or pipe. The Meter measures the quantity of gases passing optical windows by tracking the speed of flow of particles in the gas.

"As countries become increasingly serious about emissions, precise measurement will be required before carbon credits are issued – or fines levied. As such, instruments like the Focus® Probe Meter are expected to become industry standard – and eventually even required by law," says Senior Vice-President Lauren Nickel.

"The precision of Photon's technology over a wide range of flow speeds is what gives it such enormous potential to have a significant effect on preserving the environment," says Nickel.

The challenge, however, is that few countries mandate emissions measurement; most allow reporting based on an estimation of emission flows and these estimates are often at odds with what the NASA National Observatory satellite is detecting from space.


Photo: Courtesy of Photon Control Inc.

▲ Photon Control Inc.'s Focus® Probe Meter provides precise measurement of smokestack emissions.

The company's products are used primarily by the semiconductor equipment market and the oil and gas sector. Most of the company's sales are for export, principally to the United States, Taiwan and China, and more recently, Switzerland, India and Russia.

When Photon raised capital and entered R&D stages for the Meter, it found itself in a situation that many small firms face. With no earnings, and in the early stages of commercialization, it can be difficult to secure financing; no revenue, but high expenses. Even though the company may have raised $40-50 million in the research/development stages, banks can still show reluctance to provide backing.

It was at this point that EDC stepped in. Partnering with a bank in Vancouver, EDC was able to forge a Master Accounts Receivable Guarantee to support Photon, to guarantee 90 per cent of a $500,000 line of credit.

"This allows the company and the bank to develop a very important relationship," says EDC Senior Account Manager Bruce Stanton. "The bank assumes no risk and the company is now in a position to demonstrate that they are going to become profitable, they are able to handle a line of credit and that they are a good client."

"EDC's support was vital," says Nickel. "Having inadequate access to needed working capital is a common vulnerability for growing companies like ours. EDC provided that extra assurance to allow us to continue to qualify as a supplier to our major customers."

www.photon-control.com
bstanton@edc.ca

Photo: © Bloomimage/Corbis

▲ Bionest's biological treatment process purifies wastewater.

Nu-Air Ventilation Systems Inc.

Windsor, Nova Scotia

BY PAUL BRENT

It is fair to say that Nu-Air Ventilation Systems Inc. was well ahead of its time. The Nova Scotia-based company began producing energy recovery ventilation systems in 1992, when energy prices were benign and global warming was a discussion topic only for scientists.

Today, the company designs and manufactures heat recovery units for residential and commercial uses. For the past six years, Nu-Air has also made an international name for itself by offering Integrated Mechanical Systems, which combine space heating and cooling, hot water and continuous ventilation with heat recovery in one unit. The main advantages of the system are its high energy conversion efficiency and small size compared with conventional systems. Sold under the Enerboss line, the integrated system is the company's flagship green product. The latest Enerboss product is a sub-compact version, designed for apartments and condominiums.

"We are fairly unique in the world marketplace," said Matt Kimball, Nu-Air's Chief Financial Officer. "There are perhaps only two companies worldwide who compete in this market. It is an exciting position to be in."

Domestic sales account for approximately 80 per cent of Nu-Air's sales with the rest coming mainly from the United States, but also Trinidad, Japan and Europe. Company founder and President Earl Caldwell is a ventilation industry veteran who got his start in the industry in the early 1980s when he roughed out the design of a heat recovery unit on a job site for a client and subsequently built the system at his home workshop.

Nu-Air has used EDC's accounts receivable insurance to backstop its foreign sales after a referral by the Canada Mortgage and Housing Corporation. "Because there is a fairly lengthy payment cycle, a lot of the times our customers take up to 90 days before paying," said Kimball. "EDC enables us to get better leverage for those receivables," allowing Nu-Air to secure bank loans against receivables up to 90 per cent of their value, rather than 75 per cent if they were not insured.

Exports have been a focus for Nu-Air for approximately a decade. Nu-Air identifies foreign customers via agents and tradeshows as well as trade missions. The main limiting factor for expanding its foreign sales is not difficulty in finding customers, however, but in identifying markets where the company can operate cost-effectively.

"Our product requires safety and performance certification to be saleable in the domestic market and certification processes tend to be expensive," explains Caldwell. That led the company to concentrate on exporting to countries that accept Canadian certification standards without additional testing.

www.nu-airventilation.com

Photo: Courtesy of Nu-Air Ventilation Systems Inc.

▲ Nu-Air, producers of energy recovery ventilation systems, faces little competition on the world stage.

Bionest Technologies Inc.

Grand-Mère, Quebec

BY TOBY HERSCOVITCH

For Bionest Technologies, going from the banks of the St. Maurice River in Quebec to the turquoise seas of the Turks and Caicos Islands all started with a new way to treat wastewater. The company's proprietary wastewater treatment system is now used by the top resorts on these lush Caribbean islands.

"Our biological treatment process purifies wastewater much better than existing government standards require and has no odour. The Turks and Caicos Island residents even water their plants with the effluent," says Gilles Champagne, President of Bionest. He adds that the Ministry of the Environment of the Turks and Caicos has recognized Bionest for protecting one of the islands' biggest tourist attractions – its spectacular coral reefs.

Founded in 1997, Bionest has been growing quickly ever since its first export order in 2004, doubling sales in each of the following two years. Last year, growth remained strong, increasing by 25 per cent. The company now has branch offices in Ontario, Alberta and British Columbia and affiliates in France, the Caribbean and Dubai.

Exports represent nearly 20 per cent of sales, and are expected to rise as Bionest develops new projects in Costa Rica and explores new opportunities in the United States, Europe and the Middle East.

"Our biggest challenge is the capital cost to expand. It takes about six months to start up a new territory," notes Mr. Champagne. With the large amount of time and money involved, the company turned to EDC to ensure that its invoices are paid, while gaining access to more financing from its bank. "RBC introduced us to EDC, and we have been using them to insure our international sales. We also rely on Account Manager Pascal Dion to let us know if we can extend credit to a potential customer."

Bionest's international adventure started when one of its representatives was vacationing in the Turks and Caicos, where he purchased a property. He complained about the odour of the existing septic installation and recommended that the condo owners try the Bionest system. Now many of the island resorts are sold on Bionest, with the latest order coming for a 500-unit condo development.

"Our process has three key advantages," notes Champagne. "It has a higher efficiency than most other systems, there is no odour, and you can construct the entire system underground, unlike most other treatment systems. Last year, about 25 per cent of our expenditures were for research and development. We are constantly striving to improve our processes and our productivity."

www.bionest.ca

padion@edc.ca

Can-Ross Environmental Services Ltd.

Oakville, Ontario

BY PAUL BRENT

Can-Ross Environmental Services Ltd. has made an international name for itself by cleaning up industrial messes one spill at a time. The supplier of absorbents and spill kits for industrial users exports its products to customers in Ireland, the Caribbean, Sweden and Saudi Arabia.

Photo: Courtesy of Can-Ross Environmental Services Ltd.

Supplier of industrial spill control products, Can-Ross recently shifted its focus to "recession proof" industries.

To drum up international sales, Can-Ross works with Canadian trade commissioners in the countries it is targeting for growth. Most recently, that strategy worked to help the company break into the Swedish market.

Can-Ross got its start in 1985 when President and CEO Ted Edgar, then a distributor for spill control products for marine uses, came to the conclusion that those products would be invaluable in controlling spills in industrial settings. Over the past five years, sales have been relatively flat with the decline in business from its once core newsprint industry sector.

As a result, the company has shifted its focus to "recession proof" industries such as power generation, transportation, steel production and more profitable sectors of the pulp and paper industry.

With exports accounting for more than 10 per cent of its annual sales, Can-Ross relies upon EDC's accounts receivable insurance. "As far as working with our bankers, we now can use those receivables up to 90 per cent because they are insured," said Edgar. "Typically 75 per cent is what banks will give you on receivables if you are using those against your line of credit."

The company's biggest challenge currently is the recent plunge in the U.S. dollar, which has made its American rivals more competitive.

Even so, Edgar is extremely positive about his company's future prospects. "There are lots of environmental regulations coming into play internationally and nationally and we are looked at as a resource to help people comply with regulatory demands."

Employing EDC credit insurance is the main piece of advice he would give any Canadian firm looking at growing outside our borders. Can-Ross clients also appreciate EDC's role in backstopping the process.

"From the customer's perspective, now they can deal with you on open credit terms. You don't have to worry about lines of credit or pre-payment upfront," said Edgar. "It works out for both of us."

www.canross.com

Demystifying the Costs and Benefits of Environmental Impact Assessment

BY GREG RADFORD

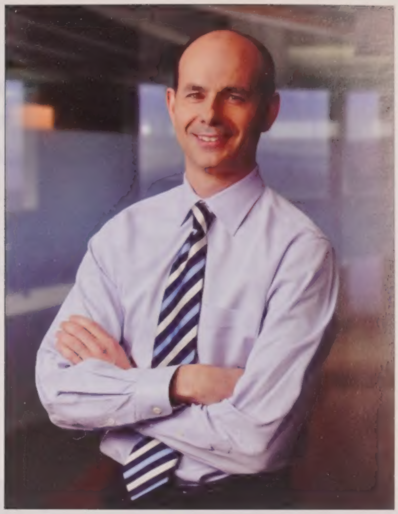

Photo: Martin Lipman

Greg Radford
Chief CSR Advisor

Environmental impact assessments can benefit Canadian companies of all sizes operating abroad. Here's how.

Companies today are facing greater environmental and social challenges than ever. Project decisions can have far-reaching environmental and social impacts and long-term consequences – good or bad – on a company's reputation. These challenges stem from local communities in emerging markets increasingly demanding to participate in corporate decisions that will affect their lives.

The Environmental Impact Assessment (EIA) process is an effective way to manage these challenges and brings with it tangible benefits to companies. Simply put, EIA is the process of identifying, evaluating, and managing the likely environmental and social effects of projects. Public and stakeholder participation is integral to the process.

Furthermore, the globalization of trade has resulted in a greater number of Canadian companies looking to develop or invest in foreign projects. These companies may have the technical expertise and financial resources to initiate and support these projects, however, they may be encountering international EIA requirements for the first time, or a degree of responsibility for an EIA that they have never before experienced.

In EDC's experience, the purpose and benefits of EIA are not always clear to mid-sized and smaller project sponsors. Incorporating EIA early into business development is often viewed as an additional cost and the benefits are too often underestimated. A common mistake is to focus solely on minimizing capital costs and, in doing so, limiting the amount of time and effort spent on environmental management. It is difficult to determine the exact costs of an EIA and related environmental programs, but typically EIA costs range from 0.1 to 2 per cent of the capital project cost. Limiting or delaying this investment can significantly undermine the project's reputation and long-term viability.

EDC's experience has shown that there are concrete savings associated with undertaking EIA over the life of a project. A well-designed project incorporates EIA early in the project development cycle; generally, the earlier these assessments are introduced, the greater the benefits and the lower the expense. When environmental baseline studies and stakeholder consultation are integrated into the project preparation phase, project designs are less likely to be modified at a later date. Extractive (mining) projects, for example, should initiate these activities during exploration to maximize benefits and begin obtaining that "social license to operate" with local communities.

Other benefits that can be achieved through effective EIA, including:

- Informed decision-making to avoid problems before they occur – resulting in lower project costs.
- Improved design or location of a project resulting in early abandonment of environmentally and socially unacceptable actions.
- Publicly disclosing and ensuring compliance with both host country and international standards.
- Reduced time and costs of regulatory approvals.
- Opportunity to engage with local stakeholders and identify appropriate ways to generate positive environmental and social results and improve the long-term quality of life in affected communities.

Projects can be halted or delayed by not following the proper EIA process. For small and mid-market project sponsors, it is often prudent to hire environmental and social consultants to initiate and undertake the EIA process. Ultimately, hiring external consultants with the necessary expertise does not replace the need to develop your company's own capabilities and accountability in this area.

The International Association for Impact Assessment (www.iaia.org) and the International Finance Corporation (www.ifc.org/enviro) provide useful EIA guidance for project sponsors operating abroad.

Greg Radford is EDC's Chief CSR Advisor. He is the corporation's lead environmental expert and is accountable for EDC's Corporate Social Responsibility programs (gradford@edc.ca).

A Capital Oasis:

The Gulf Cooperation Council

BY DENNIS AND SANDI JONES

Photo: Courtesy of Crystal Fountains

Crystal Fountain's project, the BurJuman Centre in Dubai, is considered "the world's most luxurious shopping destination."

Of the six countries that make up the Gulf Cooperation Council (GCC), the Kingdom of Saudi Arabia usually draws the most attention because of its oil wealth and the size of its economy. Canadian companies have been active in the Kingdom for many years, but for a growing number of Canada's exporters, the other GCC members – Qatar, Oman, Bahrain, Kuwait and United Arab Emirates (UAE) – are now attracting at least as much interest.

Since 2001, trade between Canada and the GCC has grown by 140 per cent; more than 1,500 Canadian companies are now doing business in the GCC, and their numbers are growing at 10 per cent per year.

Several factors account for this rapid expansion. A combination of oil wealth and sensible planning have transformed the GCC's six states into a large and affluent market that has limited restrictions on foreign ownership and welcomes overseas trade and investment.

Increases in the price of oil have left the GCC awash in capital, which has caused a spectacular boom all across the regional economy. Huge investments are being made in infrastructure, petrochemicals, oil and gas, healthcare and education.

The big boom

The regional boom presents many opportunities for Canadian exporters. "The GCC is essentially one market because of the economic integration of its member countries," says Klaus Buttner, EDC's Regional Vice-President for Africa, Europe and the Middle East. "This makes it one of the most important emerging

destinations for Canadian companies, right after Mexico and China, and ahead of Brazil or Russia."

This growth is behind EDC's recent decision to establish a permanent representation in the region, in the person of Jean-François Croft, the new EDC Chief Representative for the GCC & Yemen. Based in the UAE emirate of Abu Dhabi, Croft has been directly responsible for this market portfolio since 2005.

"Canadian business in the GCC has been growing steadily year over year, and more and more companies have been asking for direct EDC support in the market," Croft observes. "So it was natural for us to set up a permanent presence here, especially since 90 per cent of our customers in the GCC are small and medium-sized Canadian businesses."

Canadian firms have been involved for years in the GCC's oil, gas and heavy construction industries, but our exporters are now moving steadily into many other sectors.

Most of our exports now go to the UAE, especially to the two emirates of Dubai and Abu Dhabi, with the Saudi Arabian market a close runner-up. Dubai should be of special interest to Canadian businesses since much of what it imports is promptly re-exported; it's thus a gateway through which a company can reach into South Asia and other parts of the Arab world. Many Canadian companies, in fact, may find it easier to access those markets though Dubai than try to enter them directly.

Developing diversity

What does the GCC offer small or mid-sized Canadian businesses with international ambitions? A great deal, says David Hutton, Co-Director of the Canada-Arab Business Council, who has seen many such companies succeed in the region.

"More than 100 firms are registered in Dubai's duty-free ports," he notes, "and at least a dozen Canadian franchises have set up operations here. These range from Fruits & Passion's body care products, to Second Cup's coffee, to Fidel's high-end clothing. We're active in the health sector as well, selling a large range of medical services and products. InterHealth Canada, for example, which specializes in the development and management of healthcare facilities, is currently involved in major projects in Dubai and Kuwait."

Canada, EDC and the GCC

- GCC's GDP growing at 20% per year
- Canada's new Global Commerce Strategy identified GCC as a priority market
- In 2007 Canada exported $1.98 billion in goods to the GCC
- EDC facilitated $1.57 billion of exports and investments to the GCC
- EDC supported 245 Canadian companies operating in the GCC
- More than 90% of these are small and medium-sized

There's also room in the GCC for Canadian telecommunications companies. Emerging GCC telecom corporations, such as the UAE's Etisalat, are expanding across the Arab world and moving into Africa and other developing markets. Local demand for components, systems, software and design is being driven by that growth, with Nortel and many smaller Canadian companies already involved.

Agri-food companies in particular should take a close look at this market, according to James G. Hannah, Senior International Markets Officer at Agriculture and Agri-Food Canada (AAFC). "We've had AAFC specialists in the region since about 1994," says Hannah. "Since then, Canada's annual agricultural exports into the UAE have grown from around $8 million to a high of $267 million in 2007. Most of our business is with Dubai because it's a re-export centre; one of our buyers there purchases canola seed, then processes it into biodiesel for Germany and animal feed for Asia."

Bulk commodities such as canola aren't the GCC's only taste of Canada. Canadian ice cream moves briskly in the consumer market, to the tune of $10 million every year. McCain's, Cavendish and Maple Leaf Foods all sell their frozen potatoes into the GCC, where they're turned into french fries. Specialty foods such as honey, maple syrup, frozen desserts, and hotel- and restaurant-ready foods are other possibilities. Beef and chicken are popular when turned into convenience foods, since the region is, as Hannah puts it, "fast food heaven – everybody eats out all the time, and they have takeout places everywhere."

Heavy lifting

Canada's major activities in the GCC have traditionally been in the oil and gas sector and the heavy construction industry. There are more than 30 Canadian construction companies operating out of local offices in Dubai alone, and Dubai and Abu Dhabi together are home to 75 Canadian firms in the oil and gas sector. Companies such as SNC-Lavalin have been involved in the region for years, providing engineering and other services for major projects including an aluminum smelter in Qatar.

These industries tend to be dominated by large corporations, but the regional boom has opened up numerous subsectors for small and mid-sized companies. Green building technologies that can be incorporated into major construction projects are especially sought after, since all new buildings in the UAE must now be constructed to the highest global standards for environmental responsibility.

Masdar Initiative

In an even larger vision, Abu Dhabi's Masdar Initiative is intended to create a zero-carbon-emissions city from the foundations up. With a price tag of USD 25 billion, this will present a wealth of prospects for Canadian companies with advanced environmental expertise.

Located near Abu Dhabi International Airport, Masdar City will be the world's first zero-carbon, zero-waste, car-free city.

The city is part of the Masdar Initiative, Abu Dhabi's multi-faceted investment in the exploration, development and commercialization of future energy sources and clean technology solutions. The six square-kilometre city, growing eventually to 1,500 businesses and 50,000 residents, will be home to international business and top minds in the field of sustainable and alternative energy. Masdar City is slated to be fully functioning by 2015.

Rotoflex International

The GCC needs many kinds of equipment to support its rapidly diversifying economy, and Canada's Rotoflex International shows how a mid-sized company can step neatly into the light machinery sector. Based in Mississauga and in business for more than 35 years, Rotoflex manufactures precision tools and machinery for the label industry.

"Starting from Canada," says Rotoflex Vice-President Val Rimas, "we expanded to the United States, Germany, France and South Africa. Then, in the early 1990s, we participated in a government mission to the Mideast that included stops in Dubai and Saudi Arabia. That gave us an opportunity to learn firsthand about the market and its needs."

The company eventually picked Dubai as the best place to establish its GCC presence. "The deciding factors," says Rimas, "were the strength of Rotoflex in Europe, plus the strong connection between companies in Dubai and the European companies with whom we were already doing business. We got some great references from our European customers, which gave us the credibility we needed to do business in Dubai."

For Rotoflex, Dubai is an international hub, facilitating trade with the Middle East and eastern Africa. Its repackaging and distribution systems are extremely modern, and Rotoflex products are in continuous demand as a result. If there's a challenge to operating in the GCC, says Rimas, it's the distance between the company's Dubai offices and the main manufacturing facility in Mississauga; to deal with this, Rotoflex relies on its German office for support in the region.

Rotoflex also relies on EDC when the company has financial needs. "We enjoy a very good relationship with EDC," says Rimas, "and they've always been very helpful to us. We use several of their products, including accounts receivable insurance, contract frustration insurance and bonding."

Photo: Courtesy of Rotoflex

▲ Rotoflex, manufacturers of precision tools and machinery for the label industry, established a market in the GCC through their European connections after several missions to the region during the 1990s.

Crystal Fountains

Mid-sized Canadian companies can do well in the GCC's construction services sector, as the experience of Crystal Fountains amply demonstrates. In operation since 1967, the Toronto company is one of the world's leading designers and manufacturers of spectacular water features, and has customers in more than 30 different countries. Its GCC market includes the Gulf coastline from Kuwait to the UAE, and the firm is now making gains in Saudi Arabia as well. Among its current projects are retail and hotel developments in Abu Dhabi, Qatar and Kuwait, and the multiple water features that surround the world's tallest building, the Burj Dubai.

"Crystal Fountains has been operating in Europe, Southeast Asia and the GCC for quite a while," says Paul L'Heureux, the company's president. "The North American construction recession of the early 1990s made us realize that we needed to find new markets overseas, and we've been very successful in doing that. We think that the example of what Dubai has accomplished, plus the increasing amounts of capital available from the region's oil revenues, will sustain the GCC's construction sector for the next 10 years."

Crystal Fountains currently uses EDC's accounts receivable insurance to underwrite its credit. In addition, says Chris Despond, EDC account manager, "Crystal Fountains and EDC are exploring other ways to work together, so the company can continue to expand its business in the GCC and the Middle East. EDC's Export Guarantee Program, for example, could provide the requisite backing if Crystal Fountains needed additional work-in-progress financing from its

Photo: © PCL / Alamy

Photo: © Grapheast / Alamy

Photo: © Helene Rogers / Alamy

Since 2001 trade between the Canada and the GCC has grown by 140%. Canadian companies operate in sectors such as agri-food, healthcare, education and telecom.

bank. We could also furnish political risk insurance, or bonding and guarantee instruments if those were required."

Sophistication and stability

Although generally categorized as an emerging market, the GCC is a very sophisticated and well-established one. Still, like any booming market, it presents its own set of problems.

"There's a capacity crunch in both labour and materials," says Croft. "This is inflating the costs of products such as reinforcing steel, so your bids have to allow for increasing prices. Another problem is the mobilization of personnel; if you become involved in one of the GCC's high-growth sectors, you have to plan very carefully to make sure you'll have the workers you need."

Political risk is a minor concern, according to Croft. While the region is close to pockets of political instability, the GCC countries are generally well managed and very secure.

On the financial side, you should always operate on letters of credit when dealing with a new company; later, when you get to know the client, you can provide more flexible payment terms.

Logistics are excellent, since the GCC's port and transportation systems are highly efficient. But you can't just send your products to your end users; in almost all cases you must ship to a company that is at least 51 per cent owned by a local national.

"That means you'll be working with representatives and distributors," says AAFC's Hannah, "so you'll need to find someone who knows the region and how the business culture works. But always do your due diligence when selecting a partner, and always have a lawyer check your contracts."

And when choosing a local representative, adds Paul L'Heureux, be wary of anyone who asks you to enter into an exclusive agreement. If you're tempted to do so, obtain legal advice first, since it can be very expensive to free yourself from such a commitment once it's in effect.

Companies with long experience in the GCC will tell you that negotiating strategies can be very different from those used in North America, and negotiations often proceed so slowly that you may have to restrain your impatience.

There are more than 30 Canadian construction companies operating out of local offices in Dubai alone, and Dubai and Abu Dhabi together are home to 75 Canadian firms in the oil and gas sector.

"You'll need several years of senior-level contacts to establish and develop the relationships necessary for doing business here," advises Hutton. "That can include inviting your opposite numbers to Canada. We tend to underestimate the value of bringing potential buyers and partners here so they can visit our plants and facilities, and even enjoy a Canadian vacation."

And while it's important to be aware of cultural sensitivities, it's not vital to understand every subtlety. Many of the local people you'll encounter will have had extensive exposure to the West, and will often have received their professional educations there.

In other cases, your business counterparts will themselves be Westerners, or will be from non-western, non-GCC nations such as India or Pakistan. English is the common business language, and the cosmopolitan nature of GCC culture means that doing business here can actually be easier than in many emerging markets.

Paul L'Heureux has additional advice for the GCC-bound exporter. "Get used to the idea of frequent travel to the market, because you'll need to visit it regularly. Be sure to use the trade commissioners in the local Canadian consulates to help you understand the GCC business environment. And be persistent, because you may need up to five visits to obtain an order."

But don't lower your margins just to get a deal, L'Heureux cautions. "The higher costs of doing business in the GCC will erode your margins – you may have to open a regional office, for example, because many GCC firms prefer to deal with someone who has a local presence. In general, try to think of the GCC as a permanent place for your firm, since you'll need considerable time to develop your brand and reputation there."

The GCC is playing an expanding role in the world economy, not only because of its oil resources, but also because of its vast pool of capital.

"The GCC's sovereign investment funds are among the most powerful economic tools ever created," says David Hutton. "We have to decide how Canadian companies can harness this capital and tie it to the GCC's needs for our products, technology and expertise. Our companies have barely begun to tap the potential here, and the promise of this market is nothing less than extraordinary." ■

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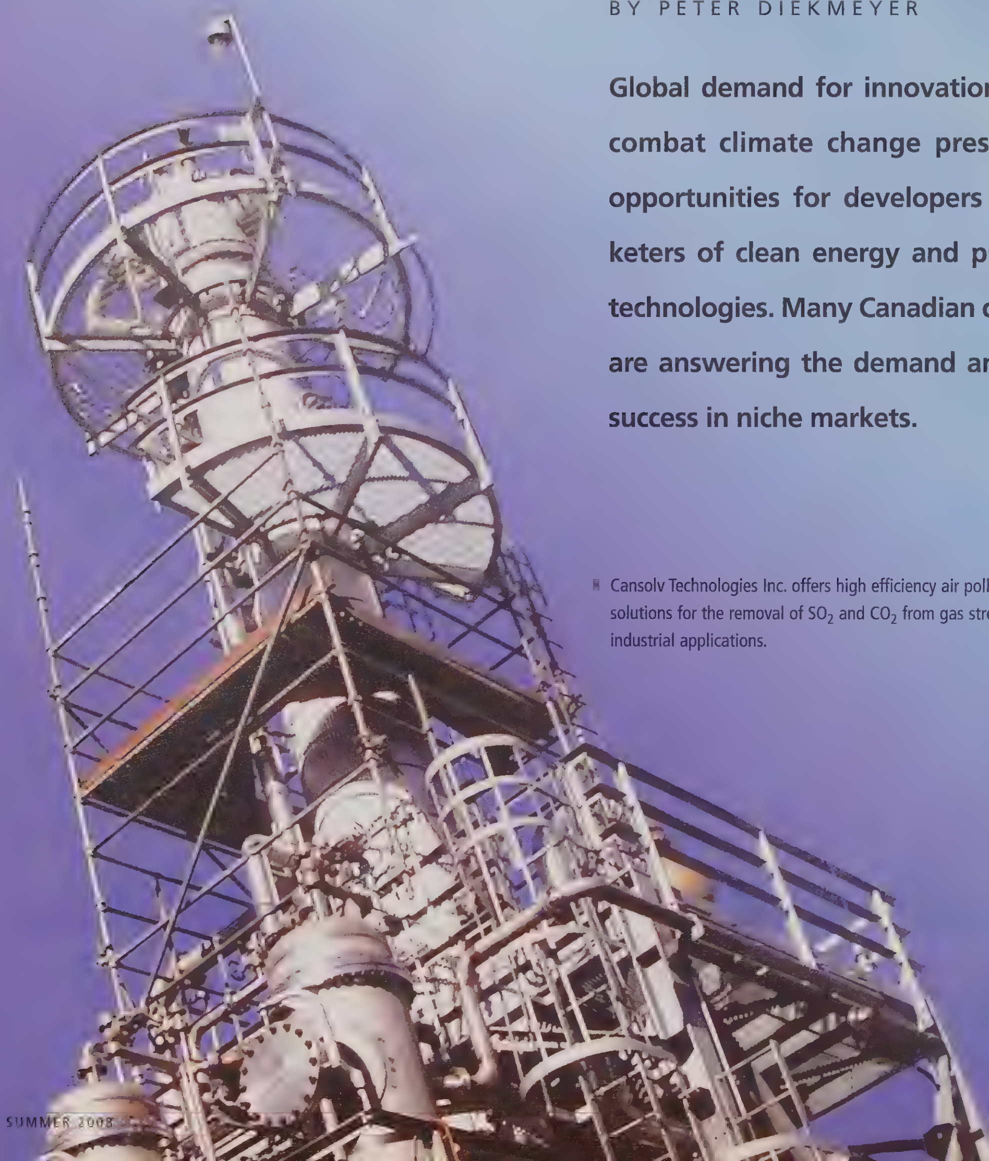
Clean Technology
From the lab to the export market

BY PETER DIEKMEYER

Global demand for innovations to help combat climate change presents new opportunities for developers and marketers of clean energy and purification technologies. Many Canadian companies are answering the demand and finding success in niche markets.



Cansolv Technologies Inc. offers high efficiency air pollution and capture solutions for the removal of SO_2 and CO_2 from gas streams in various industrial applications.

Climate change worries, high oil prices and increasing government support are fueling soaring rates of investment in the renewable energy and energy efficiency industries, according to a trend analysis from the UN Environment Programme. Growing consumer awareness of renewable energy and energy efficiency – and their longer-term potential for cheaper energy, not just greener energy – is another fundamental driver, the report said.

To that effect, environmentally friendly technologies are being developed to address a myriad of global challenges, including the need for alternate fuel sources, better drinking water treatment, and air and soil quality improvements.

Investment in the cleantech space is indicative of the increased attention to green innovation – venture capital investment alone in this category has been estimated at $5 billion. Therefore, the advancement of these technologies is of significant interest to business and the public at large.

Canada's environmental sector is tough to quantify, primarily because many companies that develop clean technologies, equipment and services conduct only part of their operations within the sector.

GLOBE Foundation of Canada, a private non-profit institution that helps the Canadian environmental industry capitalize on international opportunities, estimated, in 2004, that the sector's core comprised 10,000 companies and 250,000 employees doing close to $30 billion worth of business.

By 2007, a study by ECO Canada, the Sector Council for environmental industries, concluded that about 530,400 people were working either full-time or part-time on environmental activities.

Canadian international trade in environmental machinery and equipment to all countries in 2006 totalled $7.3 billion in exports and $10.9 billion in imports, primarily to and from the United States.

Around the world, GLOBE estimates environmental business to form a trillion dollar global market.

Growing demand for cleantech

"Changing public attitudes both in Canada and around the world are creating new demand for environmentally sound solutions in coming years," says Dr. John Wiebe, President and CEO of GLOBE. "And many Canadian environmental companies are helping other Canadian and international businesses to be more environmentally responsible and sustainable."

One such company is Smartsoil Energy of Quebec. Marketing Manager Annie Boulanger's job centers around explaining the company's sophisticated landfill gas-to-energy conversion capabilities.

Smartsoil Energy recently completed a successful installation at a landfill in Ciudad Juarez, Mexico, where their technology will aid in the collection of gases created by waste decomposition. These gases will be cleaned and fed into a generation station. The end product: 6.4 megawatts of electrical power and 212,000 tons of equivalent carbon credits each year, which can be then sold on the market.

"Everybody wins with this type of installation," says Boulanger. "Not only are harmful gases transformed, but the output converts into electricity, which benefits the entire surrounding community."

The Ciudad Juarez project is one of two that Smartsoil Energy is currently contracted to install in Mexico. A second is scheduled to be put in place near Cancun. And the company is in the advanced stages of negotiations to sell two more.

Smartsoil Energy's new technologies have entered the market at a good time.

Growing public consciousness regarding the planet's environmental challenges is creating new opportunities for many Canadian players. The company's sales have already breached the $5 million mark. Created in 2002, the company has seen its employee base grow from 12 last year to more than 25. By 2009 that total is expected to double again.

During the past two years, public attitudes in North America towards green technologies have undergone a sea change.

"Canadians increasingly expect companies to address the environmental impacts of production and are more willing to bear the added costs this could create in the goods they consume," says Karen Mallory, EDC Sector Advisor for Infrastructure & Environment.

"That will lead to new opportunities for companies that can contribute solutions."

Combating climate change

Public support for more aggressive action against climate change is growing around the world. For example, environmental issues have historically taken a back seat in U.S. elections, but that appears to be changing as climate change moved to the front burner for the candidates vying for the presidency in 2008.

The Western Regional Climate Action Initiative (WCI), launched by several U.S. states in February 2007, expects to enhance opportunities to reduce greenhouse gases. It now has 10 state and provincial partners in the U.S. and Canada (B.C., Manitoba and Quebec), and 15 official observers, such as Ontario and some Mexican states.

The newly elected government in Australia has agreed to back the Kyoto Accords. And the fact that the 2007 Nobel Peace prize was jointly awarded to the International Panel on Climate Change and Al Gore also shows that the issue is building an increased level of mainstream interest.

But translating public support for the environment into tougher legislation or international treaties, which create new demand for clean technologies, requires sustained grassroots support. According to Mallory, that rising support will also come from renewed interest in alternate fuel sources due to recent high oil prices.

These trends give new hope to Canadian companies that are involved in the development of clean technologies, says Mallory. "In coming years, more Canadian entrepreneurs will be able to take ideas that they have been working on in their basements and bring them into the real world."

Photo: Courtesy of SmartSoil

▲ Smartsoil's technology helps collect gases created by waste decomposition, where the gases are then used to produce electrical power. With operations in two landfill sites in Mexico, Smartsoil is under negotiations for more.

One challenge is that many clean technology sectors have been dominated, to date, by large consulting and engineering firms. Smaller companies in Canada have a harder time promoting new, and expensive, renewable energy and other clean technologies.

By contrast, in Europe, wind and solar power usage is far more advanced than it is in North America," says Mallory.

Environmental niche markets

In niche areas, the picture is different. "There are many Canadian companies that are coming into the market. Many others are in the incubator stage and need venture capital," says Mallory.

"The increased visibility that environmental matters are getting in the public space will be good for them. Not only will demand for new solutions increase, but the willingness of investors to put up money to fund the development of those solutions will likely increase as well."

Quebec-based Cansolv Technologies, which develops enhanced carbon dioxide and sulfur dioxide scrubbing solutions, has doubled its employees from 20 to 45 in just two years. And that doesn't include the 15 or so more that work in its recently opened Shenzhen, China, office.

"Most of our target customers are in the oil and gas, smelter, sulfuric acid and coal burning industries. But opportunities are springing up everywhere," says President Bernard West.

"During the past few years, regulatory requirements around the world have been tightening. Refineries, particularly in the U.S., have to comply with tougher Environmental Protection Agency standards, which in turn lead to new demand for our capabilities."

Cansolv is also bidding on a major CO2 capture contract to do work at a coal fired plant in Great Britain, which West has great hopes for. "If we land that deal, the potential for growth is large," says West. "There are many coal fired plants in the Asian market, which has seen dizzying economic growth coupled with large pollution challenges."

EDC, which has helped Cansolv Technologies meet its cash flow challenges, has been an invaluable partner over the years, adds West.

The worldwide initiatives of companies like Cansolv are to be expected, says Mallory. "Demand for environmental technology tends to be global in scope. A solution that works in one country will often work elsewhere too."

Getting a leg up in export markets

One big believer in the potential of Canadian companies for getting a foothold in export markets is Wayne Richardson, a director at Natural Resources Canada. Richardson recently chaired a panel at the GLOBE 2008 conference titled: *Charting the Path to Technology Commercialization.* This initiative gave him the opportunity to touch base with many sector leaders and inspired serious reflection on their success strategies.

Despite the potential, Richardson notes that there are some short-term challenges, particularly with respect to financing.

"Although the outlook for clean technology demand looks great, you have to distinguish between the short and the long term. In recent months the economy has been hard hit by the credit crunch which spilled over from the United States, which might present some immediate challenges."

Looking outside Canada for new business, even in the early stages of technology development, is a good strategy, says Richardson. "Although Canada is a physically large country, the markets here are small on a global scale. The big dollars are abroad. Most of the companies that are in the early stages right now will one day end up doing a lot of work internationally."

The other challenge, says Richardson, is that many Canadian businesses that are trying to export clean technologies are small or mid-sized. It is often a stretch for them both physically and financially to get a foothold in new markets. Richardson says partnering with the right local external players is an absolute must.

Partnering helps get around resource challenges and makes it easier to identify local opportunities and obstacles that may not be as visible to a foreign player.

EDC's clean energy equity initiatives

"A lot of leading-edge clean technology is born in Canada," says Jennifer Brooy, EDC's Vice-President, Equity. "And the companies doing that development are increasingly ready to grow their presence internationally at a time in our history when climate change is a growing global issue."

Brooy sees the potential of EDC buying or holding positions in funds that invest in companies involved in environmental conservation. Several initiatives have been undertaken in this area and investments are closely monitored to track the spin-off benefits to Canadian industry. One such fund is Enertech Capital, a new, cross-border venture slated to take stakes in both Canadian and U.S. companies. The fund has already taken a position in Alberta's IOSIL Energy Corporation and will seek out new opportunities as they emerge.

"There are few pure clean energy players here in Canada," says Brooy. "So throwing our weight behind Enertech

serves to encourage their attention on this side of the border."

Another EDC position, in the European Clean Energy Fund, was taken with the expectation that the companies being backed will purchase technology and products from Canadian firms. Brooy is especially hopeful about her department's latest project, a new investment in the China Environment Fund.

"The fund is looking at countries like Canada that have specialized in the environment or in clean technology. They then hope to bring that technology into China. This could generate major opportunities for Canadian businesses."

A helping hand

One common challenge for companies that introduce new solutions is gaining acceptance in the market, a hurdle that Claude Létourneau, President of Quebec-based Vaperma is trying to clear.

The company develops, manufactures and supplies advanced gas separation systems. Its polymer membrane technology combines solvent and high temperature resistances into a fibre that can be used to separate water from various gas mixtures and organic vapors.

Last year, Vaperma inked a cooperation agreement with Brazil's Dedini S/A Industries, which called for the Canadian company's dewatering systems to increase the efficiency of producing ethanol from sugarcane, used as a clean-energy biofuel. The two companies had worked together for months to validate the benefits of using Vaperma's technology to remove the excess water that accumulates when ethanol is produced.

According to Létourneau, Vaperma's dewatering systems use as much as 50 per cent less energy than does conventional distillation. Not surprisingly, when large amounts of money are at stake, a promise that the process will work is not enough to satisfy potential clients.

"The customer wants a performance guarantee," admits Létourneau. "We get paid when their plant is up and running."

Photo: Courtesy of Vaperma

Quebec-based Vaperma's gas separation technology is being used in Brazil to increase the efficiency of ethanol production from sugarcane.

According to EDC's Mallory, EDC can often help Canadian exporters in this situation by providing a performance security guarantee to their financial institution, depending on the contract terms and other factors. She adds that Vaperma's challenges are common. "What's different about the environmental sector is that many of the technologies being developed have strong export potential because demand is growing in so many markets."

Given that so many of Canada's clean technology initiatives are in the development stage, the long delays that it takes for public sentiment to translate into new legislation could be an advantage; by the time new statutes are enacted, many Canadian clean technology businesses will be better positioned to hit the ground running.

Smartsoil's Boulanger remains optimistic about the company's future growth. In addition to the two potential new Mexican facilities, the company is also making plans to further penetrate the U.S. market.

And if the trend toward global public support for new environmental initiatives continues to gain steam, no doubt more Canadian companies will take advantage of opportunities in this field.

Canadian CleanTech niches

- **Biofuels**: Bio-energy and bio-fuels are made through combustion of biological matter found in agricultural, forest, municipal and food procession waste. Demand for these fuels is exploding. The U.S. Energy Policy Act mandated that biofuel consumption in the U.S. rise from 4 billion gallons in 2006 to 7.5 billion gallons by 2012. Canada announced plans to require more renewable content in the Canadian diesel supply by 2012. Early this year, the Alberta Renewable Diesel Demonstration was launched by a public-private organization to test renewable diesel and biodiesel use on the road in a range of cold-weather conditions.
- **Waste management:** Like Smartsoil, many Canadian companies have developed technologies that can be used to capture gases from landfills for conversion into clean energy. Waste-to-energy initiatives, involving gasification, pyrolysis and plasma technologies have significant potential going forward.
- **Ocean energy:** Canada's long coastlines and industry expertise position the country well as a player in this field. The harnessing potential of ocean and tidal water movements are drawing increased interest from industry, academia and government, which have banded together to form the Ocean Renewable Energy Group (OREG).
- **Clean coal technology:** Coal is a key energy resource for Canada and demand is strong. According to the World Coal Institute, hard coal production has grown from 3,734 metric tonnes (mt) in 1996 to 5,370 mt in 2006. Yet coal use creates vast pollution challenges. As a result, there is substantial incentive to develop processes to reduce or eliminate carbon dioxide emissions from coal-fired plants. Several coal-fired electricity producers have formed the Canadian Clean Power Coalition to research, develop and demonstrate commercially viable clean coal technology.

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Peru: A New Era of Opportunities

BY BRUCE GILLESPIE

Peru's strong economic growth is largely due to strong investments in oil and gas and mining projects.

With one of the stronger economies in Latin America, Peru is a market with significant opportunities for Canadian companies; particularly in light of the recently signed Canada-Peru Free Trade Agreement.

Although Peru may be best known for Machu Picchu, the lost city of the Incas, the country's burgeoning economy, and its mining and extractive industry in particular, make it an attractive market for Canadian companies.

"Peru offers a playing field that is very welcoming to either investors or exporters, and in the past 20 years, they've strengthened their economy to the point where it is almost investment grade," says Stephen Benoit, EDC Regional Manager for the Andean and Caribbean Regions.

Peru, a democratic republic, is home to approximately 28.4 million people, 72 per cent of whom live in urban areas. In 2006, the country's Gross Domestic Product (GDP) was USD 93.4 billion, which is expected to grow by an average of 4.5 per cent in the medium term, while inflation is expected to settle at about 2.5 per cent.

The country enjoys healthy consumer confidence, increasing employment and positive growth. Economic activity continues to grow mostly as a result of strong investment in projects in the mining and oil and gas sectors but is also due to strong housing construction and public infrastructure spending.

"Peru today is a very stable country in which to do business," says Benoit, noting that Canada is its fourth-largest investor, concluding almost $2.5 billion in two-way trade in 2007.

Open for trade

The recent Canada-Peru Free Trade Agreement (FTA) will provide greater market access for a number of Canadian agricultural products, paper products and equipment. More than 90 per cent of tariffs on both countries' exports will be eliminated.

Provisions on cross-border trade in services will also benefit Canadian business in a variety of sectors, including mining, energy and professional services. The agreement has also achieved greater

The Canada-Peru Agreement on the Environment, signed concurrently with the Canada-Peru FTA, commits the two countries to pursue high levels of environmental protection and corporate social responsibility, and to develop and improve their environmental laws and policies. The agreement includes key environmental obligations which require both parties to enforce their domestic environmental laws effectively and to refrain from relaxing those laws in order to encourage trade or investment. Through this agreement, Canada is also committed to working with Peru to help protect and conserve biological diversity in a way that respects the interests of indigenous peoples and local communities.

stability, transparency and protection for investors, providing a more receptive environment for the rapidly growing stock of Canadian investment in Peru.

"The FTA opens up a significant number of opportunities because the legal environment will be easier to understand," says Benoit, "and Canadian companies will have the comfort of having a signed agreement as an extra layer of protection for doing business there."

Even before the conclusion of free trade negotiations, Benoit says Peru was serious about attracting Canadian business and investment. The government had established a foreign investment protection act that meant foreign investors could expect fair and equal treatment under the law, which paved the way for free trade negotiations.

EDC also has an agreement with the Corporación Financiera de Desarrollo S. A. (COFIDE), one of Peru's major financial development agencies. A deal signed in January 2007 initiated a cooperative program to identify and develop investment projects of mutual interest.

In particular, the agreement identified possibilities for Canadian capital in support of Peruvian public and private projects in municipal and transportation infrastructure projects, medical and scientific facilities, refinery and mining projects, power generation and information and telecommunications and security projects.

Benoit says COFIDE is one of two national banks that can manage trust funds, which is increasingly important as the Peruvian government continues to explore decentralization. As regions undertake their own infrastructure projects, they are funded by trust funds.

Photo: © Mireille Vautier / Alamy

Photo: Courtesy of Teck Cominco

▲ In addition to opportunities for mining companies, there is a strong demand for suppliers and services to the sector.

"EDC is working right now on a mechanism for those municipalities to assume some form of foreign debt using these trust funds as securitization," says Benoit.

Active mining sector

As is the case in Canada, the Peruvian economy gains much of its strength from the extractive sector, which includes exploration and mining operations. According to Jon Baird, Managing Director of the Canadian Association of Mining Equipment and Services for Export (CAMESE), the rejuvenation of the sector in Latin America as a whole began about 20 years ago, when governments and economies in countries such as Peru began to stabilize and terrorism was brought under control, all of which was essential to a healthy extractive industry.

"Very few exploration projects actually result in finding mines. So, it's a long-term exploration effort that's required. Once you start to build a mine, it may be 10 years before you get your money back, so when there are those kinds of instabilities, mining shies away."

While Peru is known for its gold – it accounts for 42 per cent of Latin American gold production, and it is the world's sixth-largest gold producer, slightly ahead of Canada – Baird says the country has an excellent endowment of other mineral deposits as well, including copper and zinc.

In addition to opportunities for mining companies in Peru, there is also strong demand for supplying and servicing those companies. "Peru, like most developing countries, cannot supply a modern mining industry," explains Baird. "Modern mining needs high productivity, so it needs goods and services that are reliable and low-cost, so there's great opportunity for Canadian mining suppliers."

What's more, he says Canadian mining companies and suppliers are well-regarded for their commitment to corporate social responsibility practices, which enhances their positive image in Peru and around the globe.

"A modern mining industry has to be safe and healthy – mining is no longer a pick and shovel industry," says Baird. "Canadians going out into Peru and

Photo: © REUTERS/Mariana Bazo

▲ Copper, zinc, and lead minerals being processed into concentrates at the Cerro Lindo mine in Peru.

elsewhere in the world to invest apply Canadian standards to their activities so that the environment is properly protected."

Steve Bozic, International Sales Manager for Mining Technologies International Inc. (MTI) of Sudbury, Ontario, says MTI will be focusing on the Peruvian market. MTI manufactures a wide range of mining equipment, from development and production drilling to rail haulage and underground loaders, and specializes in equipment for narrow vein operations.

"We believe that the South American market is the place to be, and there's going to be lots of opportunities in this new mining market that we can work with in Peru and Chile."

EDC has served many Canadian companies in Peru since the 1970s. It was a major lender for the giant Antamina mine in north-central Peru, one of the world's largest deposits of copper-zinc ore, and arranged $650 million of political risk insurance, which at the time was essential to attracting bank participation.

Antamina is also notable for the respect the project sponsors garnered from World Heritage authorities and non-governmental organizations alike for their engagement of local communities and the care the project design demonstrated for the surrounding environment and people.

More recently, EDC has increasingly facilitated trade between Canada and Peru by providing Canadian companies, their foreign buyers and other foreign partners more than $500 million in financing and insurance in 2007.

Today, EDC is open with its full range of products in Peru and has strong relationships with key local banks and more than 110 Canadian companies operating in the region, including Teck Cominco, Barrick Gold, ScotiaBank and SNC-Lavalin, many of which view Peru as their headquarters for the Andean region.

"We're very comfortable with the market. This goes back to the economic stability present within Peru for the last number of years, matched by a political stability that makes it very appealing," says Benoit.

In 2007, two-way trade between Canada and Peru totalled almost $2.5 billion

Other opportunities for Canada

Although the extractive sector has attracted the most Canadian interest and investment in Peru to date, there are several other sectors and niche markets that exporters and investors should consider, says Benoit. He notes that there is an infrastructure deficit of between $25 to $30 billion in Peru, which indicates significant opportunities for Canadians in roads, ports, airports, water, electricity and hydro. "These are areas where Canada has some real strength, so it's just matching up the right opportunity with the right capabilities," he says.

Benoit notes that Peru also has an under-developed oil and gas industry that is only now beginning to be explored with the increase in the price of oil and recent discoveries of heavy oil fields in nearby Colombia and Venezuela. "Colombia has been more aggressive in promoting oil and gas exploration, and some people are saying that Peru is where Colombia was three or four years ago," he explains. As such, it is ripe for exploration and investment.

Yaa-Hemaa Obiri-Yeboah, Trade Commissioner for the Andean Region with Foreign Affairs and International Trade Canada, says Canadians are well-placed to do business in Peru. "Our corporate social responsibility plays a role in our competitive image. We're certainly quite strong in terms of that in the mining sector, so we have a positive image in Peru, and I think that's an asset," she says.

In terms of entering the Peruvian market, Obiri-Yeboah says knowledge of Spanish is an advantage but that the trade commissioner's office has locally engaged staff on the ground who are very good at assisting exporters and setting the scene in terms of what they can expect of working in Peru.

She says the Peruvian market is a friendly one to Canadians given how many Canadian companies operate there already. A local presence in the market is of the utmost importance in understanding the needs of Peruvian clients and understanding the business climate. She recommends employing an agent or official representative to pursue market opportunities with the private and public sectors, as it will help in terms of language barriers, customs clearance and servicing requirements.

"Peru continues to be a very important market for Canada. We expect the free trade agreement to do a lot for Canadian companies and for Peru, resulting in prosperity for both countries." ■

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Potash Industry Experiences **Potent Growth**

BY TOBY HERSCOVITCH

Photo: Courtesy of Canpotex

Global population growth and food shortage: Canada's fertilizer exports are expected to grow about 32% this year

Canada's fastest growing export, which jumped 21 per cent in 2007, is not oil or wheat, but something that has become just as basic to our survival. It is potash and the other two key crop nutrients, nitrogen and phosphate, which are critical to the production of every staple food around the world.

The potash and fertilizer industry is on a major growth spurt with no end in sight, fueled largely by demand in booming emerging markets. Canadian fertilizer exports are expected to grow about 32 per cent this year and 13 per cent in 2009, according to EDC's latest Global Export Forecast.

These essential crop nutrients allow farmers to produce the crops required to feed the world's growing population and provide the inputs for biofuels. They enable common crops like rice, wheat, corn, soybeans, sugar cane, coffee and bananas to flourish.

As strong as the demand is today, potash producers say it is just starting to take off. Lately, much attention has been focused on biofuels and how they are causing a jump in food prices by diverting food to the energy market.

"Yes, biofuels have been somewhat of a catalyst for growth in global potash sales," says Scott Rudderham, Vice-President of Operations for Canpotex, the world's largest potash exporter, "but the real drivers are population growth, and the increasing wealth of middle class consumers in key growth markets such as India, China, Brazil and Southeast Asia.

"Improved diets and increases in the variety of foods available have created a huge demand for fertilizers like potash. About 92 per cent of Canada's potash sales are for agricultural use and 8 per cent for industrial value-added processes."

Canpotex is an international marketing and distribution company owned

by the Saskatchewan potash producers – Agrium Inc., Potash Corporation of Saskatchewan Inc. (PotashCorp) and The Mosaic Company, a U.S. enterprise that operates some of Canada's potash mines.

PotashCorp also owns a potash mine in New Brunswick (which operates outside the scope of Canpotex) and produces nitrogen and phosphate at facilities in the United States, Brazil and Trinidad. The company also has investments in other international potash companies.

Overall, it is the world's largest fertilizer enterprise. In late April, the company announced record first-quarter results of $566 million, compared to $198 million in the first quarter of 2007.

The other Canadian Canpotex Member, Agrium, based in Calgary, is a leading global producer of agricultural nutrients, industrial products and specialty fertilizers.

It is also a major retail supplier of agricultural products and services in both North and South America. Total sales in 2007 were USD 5.3 billion.

Canada is the world's largest potash producer with some 32 per cent of total world production in 2007. More than 50 per cent of Saskatchewan's potash sales are now destined for offshore markets, of which 70 per cent goes to Asia.

As potash demand skyrockets, prices too have registered unprecedented increases.

"In late March, Canpotex concluded contracts with Indian buyers at $355 per metric tonne higher than last year," notes Rudderham.

A month later, Sinofert Holdings in China also reached an agreement with Canpotex, at a $400 per metric tonne increase over last year. PotashCorp owns 20 per cent of Sinofert, a fertilizer producer and China's largest distributor.

Of course, prices for rice and other staple foods have been rising too, stretching out of reach of subsistence-level populations in some of the world's lowest-income countries.

"Potash is critical to increased agricultural productivity. We go as agricultural commodity markets go. These markets are extremely tight and farmers are purchasing more potash to improve crop yields," says Rudderham.

Adds Agrium President Mike Wilson: "If you look at potash prices on a per bushel basis, farmers are actually paying less per bushel of grain."

Keeping pace

"World potash suppliers are being challenged to meet record demand," says Rudderham. This was echoed by some of the top global players at a recent Global Fertilizer Conference in Toronto.

In addition to Canada's potash giants, the participants included key competitors, companies such as Uralkali from Russia and ICL from Israel. They all see the industry running hard and fast through to 2012 and possible bottlenecks in the future. They are practically tripping over each other announcing new investments.

"Even with reports of recession in the United States, we believe the potash market will continue to be strong. The increasing value of the Canadian dollar has a negative impact on our operating costs in Canada, such as rail and terminal costs, but does not impact sales, which are in U.S. dollars," says Rudderham.

"Costs for ocean freight, incurred in U.S. dollars, have increased by 175 per cent in the last couple of years. However, Canpotex is actively engaged in the ocean freight market and takes a proactive approach to minimize these costs."

The biggest challenge for the potash industry, according to Agrium's Wilson, is that governments could be pressured to intervene by imposing caps on prices and export duties on agricultural products. "We don't really want to see crop prices go up any more, because then governments could start interfering."

Agrium Takes a Different Path

"We're a different company from most other producers of crop nutrients, because we are across the whole agrifood value chain," says Agrium's Wilson.

"We long ago embarked on a strategy to moderate the earnings cycle of any one crop nutrient by diversifying – as a wholesale producer of all three major agricultural nutrients, a significant retail supplier of agricultural products and services, and a supplier of advanced fertilizers."

EDC helped finance a nitrogen plant for Agrium in Argentina that has been operating successfully for close to a decade.

The company also has eight other nitrogen facilities, along with two phosphate facilities, a major potash mine and specialty products manufacturing facilities in the United States and Canada.

Photo: Courtesy of Agrium

▲ Diversification pays: Calgary-based Agrium, producer of agricultural nutrients and specialty fertilizers, cuts across the whole agrifood value chain.


Photo: © REUTERS/Amit Gupta

▲ Potash is critical to increased agricultural productivity; world potash producers are now being challenged to meet record demand as farmers around the world purchase more potash to improve crop yields.


Photo: © REUTERS/Paulo Whitaker

Canada is the world's largest potash producer, with about 32% of global production. About 50% of Saskatchewan's potash sales are exported.

Heightened demand and prices do not all translate into net income, of course. All three Canpotex Members invest regularly in infrastructure and have indicated they are making or studying mine expansions and even new mine developments.

"Public announcements by the Saskatchewan producers show their collective production capacity (for that province) will increase by approximately six million tonnes in the next five years (2013) and eight million by 2015," notes Rudderham.

10 years to start up

One of the biggest advantages that Canada has in the market is that it already has the infrastructure in place to bring on new capacity faster than its global competitors. By contrast, two new producers in Russia are on the horizon, but they are not expected to be up and running fully for about 10 years.

"If you are not in the business already, it is not easy to get in," notes Wilson. Infrastructure is hugely expensive – aside from developing the mine, there are the costs of port facilities, rail lines and other major capital expenditures.

Adds PotashCorp's Doyle: "If you try to get engineers for the process, get in line. New machines, get in line. There's probably a four-year wait." He also notes that good potash deposits are rare. The best ones are in very dry areas, like Saskatchewan.

Mine-to-lake and other risks

Water intrusion is one of the high-risk elements of mining potash. Every potash mine faces the threat of water inflow from underground and potash is corrosive, notes Doyle. "Russia lost a mine last year; it's basically a lake today."

You have to make sure you are doing regular maintenance on the mines; if you skip it in the short term, there is the risk of long-term failure, adds Doyle.

One risk that is avoidable when dealing with buyers around the globe is that of their non-payment.

"In the early 1990s, for example, our competitors were selling to Brazil on an open account basis. EDC was paramount to our growth in Brazil, and allowed us to compete with other suppliers in this market with minimal risk," says Rudderham.

"Open account sales continued to increase and now represent approximately 70 per cent of our business. So, yes, EDC has been critical to our success. We looked at other insurance companies, but none were willing to take on risk to the same degree as EDC."

One of the challenges that Western Canadian potash producers face is that their vast reserves are some 1,600 kilometres to tide water, separated by Canada's rugged landscape. "So we have to anticipate the demands of the market to deliver potash to distant markets efficiently. For example, in 1999, Canpotex developed a railcar designed specifically to carry potash. By the end of this year, we will have approximately 5,500 of these railcars in dedicated potash service.

"Such investments, initiated in much leaner times, allow Canpotex to handle record potash volumes today," says Rudderham. "We recently worked with EDC on a transaction that enabled us to lease a portion of this modern fleet of railcars at a reduced overall cost. EDC is the only one that stepped up to the plate."

Gary Brown, EDC's Strategic Account Executive, Extractive Sector, explains: "EDC was able to provide financing into the [third party] leasing structure, based on our knowledge and confidence in Canpotex's strengths."

Brown adds that EDC has been dealing with Canpotex for 30 years and the company is one of its largest clients.

By investing in the business and constantly improving productivity, Canada's potash and fertilizer companies are "masters of their destiny" and are well positioned to help meet tomorrow's global food needs. ■

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Canada's Auto Parts Suppliers:

Re-Tooling a New Model

BY PETER BRAKE

Adjusting to an extensive industry realignment in North America, Canadian auto parts suppliers are relying on diversification and innovation to remain competitive and viable. The numbers illustrate the resiliency of the sector.

While automobile assembly is reeling from a 20 per cent drop in business since 2000, auto parts has declined by 9 per cent. Employment at the approximately 540 parts suppliers in Canada has kept relatively steady at 97,000 – in sharp contrast to auto assembly workers whose numbers have fallen more than 12 per cent from its high of 57,000 in 2000.

The desire to survive under these challenging conditions is the impetus behind the "re-tooling" of the Canadian auto parts industry.

Joanne Tognarelli, EDC Transportation Sector Advisor describes the range of market pressures forcing the sector to adapt.

"The rapid rise in the Canadian dollar to near parity with the American dollar, coupled with corresponding higher energy and raw material prices have greatly increased costs. Fuel prices and environmental issues have moved the consumer market to smaller, more fuel-efficient cars, a segment mostly dominated by foreign car makers. As well, cross-border congestion exacerbated by security concerns has hindered the vaunted 'just in time' delivery process."

The integrated nature of the North American auto industry means effects are felt everywhere. "All the stresses besetting General Motors, Ford and Chrysler are passed on to the Tier 1 parts suppliers which in turn get passed down the supply chain to the Tier 2 and Tier 3 manufacturers," notes Chris Despond, EDC's Account Manager for several automotive parts makers. However, both he and Tognarelli point out that the Canadian parts sector has demonstrated resiliency in dealing with industry restructuring.

"Canadian auto parts suppliers have been a key contributor to Canada's historic advantage in auto production," observes Tognarelli. "They are industrious and efficient manufacturers, which have, up to recently, been able to supply higher quality products at a lower cost despite the erosion to their cost advantage by the soaring Canadian dollar." Underscoring this point is the more than 40 per cent increase in Canadian parts exports to Mexico since 2000 where North American vehicle assembly has been growing rapidly.

Despond adds, "The smart auto parts companies have repositioned themselves to compete in a global market. Joint ventures have enabled them to share costs with producers and establish closer

With the automobile assembly sector in trouble, auto parts suppliers have had to adjust, reposition and invest in technology.

Photo: REUTERS/Desmond Boylan

▲ Canadian manufacturers have to be willing to move where the production is to stay competitive.

working relationships with customers. This includes taking on more of a role in technology development and consulting with the major players much earlier in the model development process. Others have looked beyond automotive assembly to sectors such as aerospace, oil and gas and construction where the market for precision parts and equipment is robust."

"Most importantly," adds Tognarelli, "Canadian parts suppliers have adjusted to the global marketplace by extending their reach to include producers all over the world – from the New Domestics, those major auto producers which are not North American but have established many facilities on the continent, to the rising and ambitious producers surfacing in China and India."

Adapting to survive

Clover Tool Manufacturing and Samco-Machinery Ltd. are just two of those Canadian parts suppliers which have been able to expand their business despite a troubled sector.

Clover Tool, founded in 1979 as a tool and die maker, has evolved into a supplier of semi-finished components, winning awards for craftsmanship and performance. Today it produces more than 300 different products from window regulators and engine mounts to door parts and office furniture. General Manager George Zeni points to several ways the company has managed to grow even amidst industry turmoil.

"Cost cutting has been a way of life for the Canadian auto parts sector for many years now. We recognized that we had to become a producer of high quality metal parts supplying a diversified customer base. To that end we have steadily increased the role of technology in every aspect of our production process. We constantly invest in new equipment and focus on providing our workers with training because they are the source of much of our innovation and production improvement."

Adapting to changes in the marketplace is critical, adds Zeni. "We try to maintain a healthy group of customers across a number of industries so that we don't become tied to the fortunes of just one customer and one economic sector. Designing on an ongoing basis keeps us current and in step with prevailing trends."

As the auto industry puts more emphasis on becoming more environmentally friendly, Clover Tool has worked with the Big Three and other companies like Ballard Power Systems on clean air technology and alternative energy systems such as the hydrogen engine.

Samco is another family company that has remade itself into a global enterprise. Specializing in roll-forming equipment, machinery to bend and form metal to any shape required, the company now has locations in Canada, India, Finland and China. Its ability to supply parts for Tata Motors' Nano, a $2,500 car designed to bring owning a car within reach of more of India's consumers, is a prime example of Samco's ability to adapt to new markets. Founder Joe Repovs envisions his company as the world's leading roll-forming systems manufacturer.

"Samco's aim is to extend our marketplace to anywhere in the world and to any industry that can use our roll-forming systems. Our clients want suppliers who are willing and able to set up operations close to their major manufacturing facilities. We have been able to sell into growth industries such as shelving and racking, steel stud and framing used in construction, furniture components and heating and air-conditioning as well as maintain our place in auto assembly."

Repovs believes that Canadian manufacturers have to be willing to move wherever production is going in order to retain business and be competitive. "In places like China and India, wealth is being created at a tremendous pace. That is where Canadian business has to be if they want to be a part of the fu[...] We can't wait for them to come to [...]

Clover Tool and Samco have found EDC's products and services he[...] facilitate their expansion. Accordin[...] Zeni, "The collapse of the U.S. hous[...] market has tightened credit across [...] business world. EDC was instrumental [...] opening up new lines of capital th[...] allowed the funding of new business[...] They also provided us market information and analysis that has helped shape our decision-making."

Repovs adds, "Samco's decision to expand into China and India carries some risk. Insuring our receivables enables us to manage risk and gives us the confidence to be more aggressive in reaching out for new business."

Despite the ongoing pressures facing today's auto sector, innovation, craftsmanship and flexibility have enabled Canadian auto parts suppliers such as Clover Tool and Samco to excel in difficult economic times. They illustrate the resiliency of an industry re-tooling itself for survival. ■

Photo: Courtesy of Samco

– Samco has expanded beyond auto assembly to other growth industries that can use their technology, and now has operations in India, Finland and China.

FOR MORE INFORMATION

- jtognarelli@edc.ca
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- www.clovertoolmfg.com
- www.samco-machinery.com
- www.apma.ca

Photo: © Keith Dannemiller/CORBIS

Focus on the United States:

Hawaii, Nevada and Northern California

BY DENNIS AND SANDI JONES

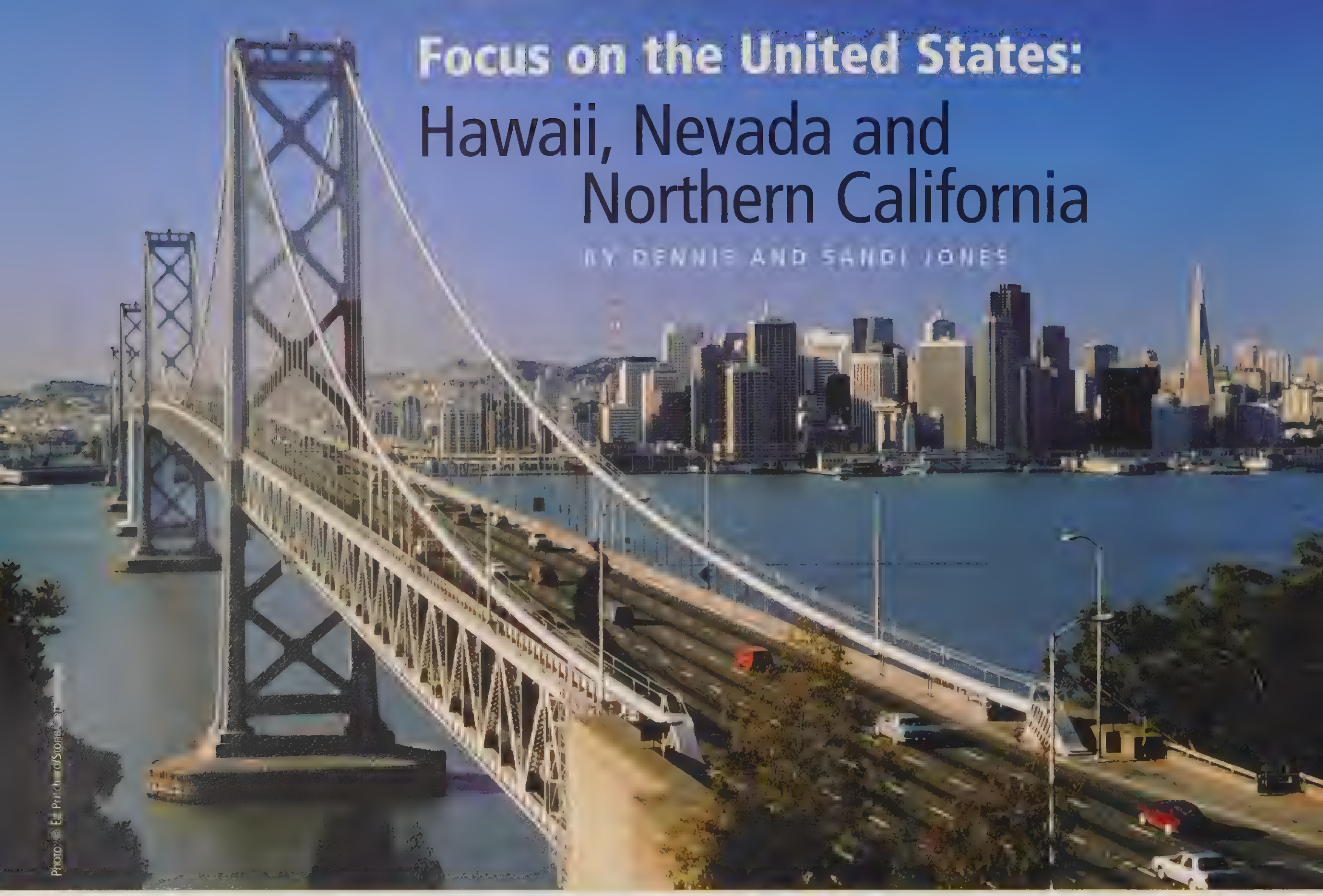

Photo: © Ed Pritchard/Stone

The region of the United States serviced by the Canada's Consulate General in San Francisco – Hawaii, Nevada and Northern California – represents many opportunities for Canadian exporters and investors. There are potential customers in almost every manufacturing and service sector, from specialty seafood to wireless security systems.

Nevada and Hawaii support economies that are much smaller than Northern California's, and they buy relatively modest quantities of Canadian goods. In 2006, Nevada imported about $1 billion worth of Canadian products, mostly lumber and building materials, while the corresponding amount for Hawaii was around $125 million.

For the region's real economic centre of gravity, one has to look to the Northern California powerhouse, and in particular to the heavily populated counties around San Francisco Bay. While there is no official breakdown of trade data for Northern California as a market, EDC's economists estimate that 2007 exports were about $8 billion.

The Bay Area is important to the American economy for three key reasons. First, it is home to Silicon Valley, the engineering hotbed that has produced much of the world's new information technology. Second, it has the world's largest and most important cluster of companies and institutions working in the life sciences. Third, it has the highest concentration of venture capital on the planet.

"Another defining feature of Northern California's business culture is that it attaches no stigma to failure," says Barbara Giacomin, Consul and Trade Commissioner at Canada's Consulate General in San Francisco. "Since people know they won't be penalized if a venture doesn't work out, they're more willing to accept a number of failures while they're on their way to creating a successful business. Once they succeed, they very often sell their company and start a new venture. This region's business culture is so special because it juxtaposes that sort of entrepreneurial spirit with advanced research facilities and huge sources of capital, and this threefold advantage has made it extremely competitive. As a result, countries all over the world look to this region in order to emulate its success."

On the leading edge

Because of the large number of high-technology firms, institutions and R&D centres in the San Francisco region, the ICT industry is probably the best-known sector in Northern California, and provides a myriad of opportunities for partnerships, licensing, co-marketing and conventional export sales. Products to combat security risks on both wireless and wired networks are in high demand, as are technologies that can decrease the costs and bandwidth constraints of Internet access.

Also under intensive development are hardware and software technologies for mobile devices, and peer-to-peer applications for business environments.

Northern California is also home to the most important life sciences cluster in the world, which has nurtured the growth of hundreds of small and medium-sized

biotech firms. Many are looking for advanced products and technologies that will give them an edge in the market, and this can present a hospitable sales and licensing environment for Canadian entrepreneurs. Companies can set up Canadian-based clinical trials for U.S. clients, for example, or carry out research in Canada under contract to American firms. Partnerships to co-develop therapies, drugs and medical devices may also be attractive options.

Environmental technologies

Environmental technologies constitute a rapidly growing sector. Many California corporations have become highly sensitive about the environmental impact of their activities; as a result, they are investing in technologies that reduce energy use, energy costs and greenhouse gas emissions.

In addition, Hawaii could be an untapped market for Canadian energy and environmental companies. The state hopes to meet 20 per cent of its energy needs from non-fossil fuels by 2020, and it has already received federal funds for R&D into power sources such as biomass, wind, geothermal, hydrogen, ocean thermal, wave energy, waste-to-energy, solar and photovoltaics.

Federal and university research institutions, as well as commercial labs, are very active on the R&D side of this sector, and Canadian companies with advanced technologies in biofuels, waste-to-energy conversion, biomass-derived energy, and solar or wind power should investigate this market. Concern about water resources is also driving the development of technologies and services for water management, water conservation and treatment, storm water management, desalination and recycling.

On the agri-food side, niche markets can be very rewarding for Canadian suppliers, since California consumers have a taste for ethnic and specialty foods, and for organic and health-enhancing foods such as nutraceuticals. Fish and seafood can also work well in this market if they're raised in a sustainable, eco-friendly manner, have value-added features and are processed and packaged in environmentally responsible ways.

But Northern California isn't the only place to go. "Canadian mining companies have been active in Nevada for many years," says Giacomin, "and this has provided an ongoing market for Canadian mining equipment, supplies and technology."

A good indicator of the vitality of this market is the number of trade shows and expositions occurring around the region every year. The variety is almost endless, including events for photonics, medical research, agri-food, environmental technology and every aspect of ICT. Attending a suitable show could be a useful strategy for a Canadian company seeking a foothold here.

View on the ground

For Aluminum Curtainwall Systems (ACS) of Kamloops, British Columbia, the region has presented an increasingly profitable market. ACS specializes in the custom design and manufacturing of pre-glazed curtainwall systems for the facades of both low-rise and high-rise buildings; it also designs and fabricates custom overhead glazing systems, entrance systems and sunshades. Eight years ago the company opened a new 50,000 sq. ft. plant in Kamloops and now employs about 130 people.

ACS got its start in Nevada and Northern California in 2000, by identifying the major players in its sector and then carefully targeting those that it wanted to do business with. This approach has worked very well, as is clear from the company's recent involvement with the Planet Hollywood construction project in Las Vegas, Nevada.

"At $12 million, Planet Hollywood is our biggest contract so far. We're also currently finalizing the details of another large contract in San Francisco," says Gary Lawrence, ACS's marketing manager.

"Given that we began our expansion into the United States with jobs worth about half a million dollars, the Planet Hollywood project shows how quickly ACS has been able to grow in this market."

All ACS products are manufactured at the company's plant in Kamloops and are shipped from Canada to the firm's job sites in the United States.

Exporting to the United States has been quite straightforward, says Lawrence, noting that the company has experienced no problems in moving either its products or its personnel across the border. EDC has also played a part in the firm's expanding business; for financial protection on the Planet Hollywood project, ACS is using EDC's Accounts Receivable Insurance, which secures a company's revenues if a customer is unable to pay.

Aluminum Curtainwall Systems got a foothold in the region by identifying and targeting the major players.

Competition and commitment

The size, variety and wealth of the region attracts companies from around the world, and Canadian companies that want to do business here will be confronted by stiff competition from India, Israel, China, the United Kingdom and Australia. "Succeeding under these conditions demands a long-term commitment to the market," observes Giacomin.

"This usually requires three to five years of working closely with distributors and partners to co-market and co-promote your company's goods or services. It's not enough to have something unique; you also need enough time and money to sustain your efforts until you can establish yourself solidly in the marketplace."

FOR MORE INFORMATION

- Regional Markets of the United States: A Guide for Exporters www.edc.ca/english/publications
- Consulate General of Canada sfran-td@international.gc.ca
- www.acsinc.ca

EDC Launches

New Representation in Santiago, Chile

New Regional Manager for Monerrey, Mexico

Over the past few years, EDC has taken a number of steps to better respond to the changing needs of Canadian exporters.

These steps included strengthening EDC's representation around the world, in order to increase the competitiveness of Canadian exporters and investors, particularly with respect to investments in global supply chains and business in emerging markets.

To promote increased trade between Canada and South America, EDC is expanding its presence on the continent through a recently announced permanent representative in Santiago, Chile. Co-located in the Canadian embassy in Santiago, Regional Manager Christian Daroch is responsible for identifying opportunities for Canadian exporters and investors throughout Chile, by developing local relationships, partnering with local banks, companies and intermediaries, collaborating with Canadian Embassy and Consulate General officials, local chambers of commerce and key industry associations, and providing enhanced market intelligence.

Canada was the first member of NAFTA, the OECD and the G-7 to sign a free trade agreement with Chile, recognizing its importance in 1997 as a regional base for Canadian companies to manage investments and build business relationships.

Since that time Chile has become one of South America's most stable and prosperous nations, and an important trade destination for Canadian business; Canada is the 3rd largest source of investment in Chile and the largest source of investment in Chile's mining sector.

Canadian companies have invested in other key sectors of the Chilean economy as well, including electricity transmission, methanol production, telecommunications, utilities and banking and EDC sees additional opportunities in energy and pulp and paper.

Total bilateral trade has more than tripled since the signing of the bilateral free trade agreement, showing Chile's economic stability during turbulent times in Latin America. In 2007, EDC provided financial solutions for 236 firms in Chile, more than half of all Canadian firms operating in the region. More than 100 of these companies make Santiago their South American base and some 70 companies have offices in the northern and southern provinces of Chile where the mining and forestry sectors focus operations.

To that effect, EDC is open in Chile under all of its programs with both public and private buyers. In fact, EDC sees Chile as critical regional commercial hub and it will continue to help build the global supply chains that are critical to competing successfully in an integrated global economy.

With more than 12 years of relevant experience in Chile and internationally, Daroch is knowledgeable in various industries such as oil and gas, real estate and construction, electricity distribution, renewable energy and forestry. A native of Santiago, he also holds a Diploma in Corporate Finance from the Universidad Adolfo Ibanez and an MBA from the University of Ottawa.

EDC's global presence

Santiago joins Abu Dhabi, Beijing, Kuala Lumpur (soon to be relocated to Singapore), Mexico City, Monterrey, Moscow, Mumbai, New Delhi, Rio de Janeiro, São Paulo, Shanghai and Warsaw as a site of permanent EDC representation. EDC's goal is to strengthen and expand its network such that by 2010 there will be 20 foreign representations in place.

Monterrey, Mexico

EDC would also like to introduce its new representative in Monterrey, Mexico. Marcos Pruneda joined EDC in January 2008 to replace outgoing Regional Manager Noe Elizondo.

One of EDC's greatest assets is the financial relationships it has established with key buyers in Mexico, and Pruneda will continue to identify and establish new financial relationships and connect these buyers to Canadian companies, particularly in the Mexico's northern states.

Pruneda has more than 10 years of working experience in Mexico in business development including banking, international trade in Canada, Mexico and Latin America in the paper industry and consulting and financial analysis of an inventory management consulting firm.

A native of Monterrey, Pruneda holds a Bachelor in Administration from the Universidad Autonoma de Nuevo León and an MBA from the University of Ottawa. ■

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Caught in the Headlights

BY STEPHEN POLOZ

Stephen Poloz
Senior Vice-President, Financing

Making business decisions is hard enough in normal times. But today's volatile and uncertain economic environment can cause companies to freeze, like a deer caught in the headlights of an oncoming car. Don't expect relief anytime soon.

Business planning is hard work. A company must do an environmental scan, project it out for a number of years, pull out of it the threats and opportunities, and then develop a resource plan to move the organization forward.

Whether you are piloting a canoe or an aircraft carrier, navigating around all these variables is hard work at the best of times. Add a dose of inclement weather, the likes of which have not been seen in decades, and it becomes next to impossible.

Ask any business planner what they see in today's macroeconomic environment, and they are likely to use terms like "stagflation" or "Dutch disease", and they may say that the situation reminds them of the 1970s. Whether those categorizations are appropriate matters little – what companies see is sky-high commodity prices, rising inflation, a strong Canadian dollar, a slowing economy and the risk of outright recession in the U.S., at least.

These are exactly the symptoms companies had to deal with in the 1970s, and economists called it stagflation back then. The combination was poison for corporate profits and the stock market, and Dutch disease proved fatal for some companies. Accordingly, it is not a scenario to be taken lightly, regardless of whether or not economists consider it likely.

If that is not enough, this time it comes with a credit crunch. Nearly a year after the credit crunch first emerged, it still makes the front pages on a regular basis. What began as a technical glitch in markets has grown in scale and scope, to the point where it clearly falls into the same ballpark as the U.S. Savings and Loan crisis and Japan's 1990's banking crisis.

The credit crunch is not going away because it is not simply a technical glitch. It is connected to ongoing wave of defaults in the U.S. housing market. That situation is probably going to get worse before it gets better, and is at least 18-24 months away from recovery. Accordingly, the financial system may take longer to truly recover than many people expect – and that may mean wider corporate credit spreads, continuing shortages of venture capital and credit for small business, and stretched infrastructure finance markets, among other things.

From a business standpoint, the real concern is not that bad decisions will be made in this environment, but that many of them by their very nature will be irreversible. And so, the natural response of companies may be to delay major decisions until the situation becomes clearer, with the result that the economic situation actually becomes less clear because their hesitation adds to the risks of a deeper slowdown.

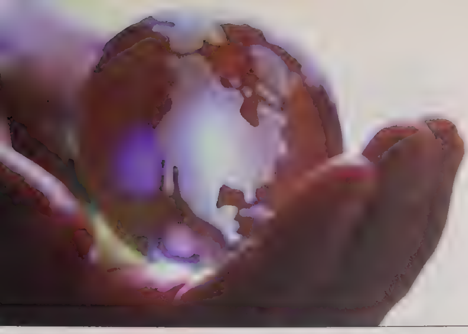
That being said, what do we have going for us? What can keep us out of a 1970s-style economic and financial malaise?

First, the world outside the major economies has changed dramatically. Once-tiny players with negligible impact on the world stage have become bigger, faster and stronger. Most analysts believe that the developing world has become much more resilient, and is capable of continuing to grow, and remaining an important market for goods and services from the major economies despite market turmoil. This cushion wasn't there 30 years ago.

Second, the world's policymakers have earned a lot of credibility on the inflation front in the last 15-20 years. That credibility should mean that higher prices for various commodities will not develop into an actual inflationary spiral – that instead, the global economy will adjust rapidly and relatively smoothly to higher commodity prices, work its way through the associated growth slowdown, and then return to a low-inflation growth track. Central banks should be able to capitalize on their hard-won credibility to navigate through a no-win situation. That credibility also wasn't there 30 years ago.

The bottom line? Some companies will freeze in such an environment, understandably. But few can afford do so for a period of up to two years. The right planning strategy for today is one that analyzes how the company will manage through the worst-case scenario – including very high commodity prices, and outright recession – so that the company can prosper when a less dire scenario actually emerges. ■

Stephen Poloz is EDC's Senior Vice-President, Financing. He can be reached at spoloz@edc.ca.



EDC Toolkit

EDC offers a wide range of trade finance solutions to Canadian companies and their customers abroad. The following summary is intended to act as a guide. Visit us online at www.edc.ca or call a small business representative at 1-888-332-9398, weekdays, 8 a.m. to 6 p.m. EST.

Insurance

Are you sure your U.S. or foreign customer will pay?
Don't risk it. Get EDC Accounts Receivable Insurance and we'll cover up to 90 per cent of your losses if your customer doesn't pay.

Do you know what the future holds for your investments abroad?
Use EDC Political Risk Insurance and protect your investments abroad from unforeseen political and economic upheaval. We'll cover up to 90 per cent of your losses.

What if my buyer calls my bond even though I didn't do anything wrong?
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For information on these and other insurance products, visit **www.edc.ca/insurance**.

Working Capital

Do you need access to more financing?
By providing a guarantee to your financial institution through our Export Guarantee Program, we can help you access additional financing for export-related activities and/or foreign investments.

Do you need protection against currency fluctuations?
Do you purchase forward contracts from a financial institution to protect your cash flow against currency fluctuations? EDC's Foreign Exchange Facility Guarantee (FXG) can help. FXG frees up your working capital by foregoing a financial institution's requirement to put up to 15 per cent collateral on forward contracts.

With FXG, you can pay your suppliers up front without fear of losing money due to currency fluctuations.

For information on these and other working capital solutions, visit **www.edc.ca/wcs**.

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www.edc.ca/exportcheck

Want to export with peace of mind?
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Looking for information on export finance?
The EXPORT*FinanceGuide* centralizes information about the financing tools and services available for Canadian exporters at various stages of the transaction cycle. **www.edc.ca/efg**

Want some market insight that will actually help you make a decision?
Check out EDC's Country Information – economic reports that monitor political and economic events and gauge opportunities in more than 200 markets.
www.edc.ca/e-reports

Online Solutions Advisor
EDC's Online Solutions Advisor gives you fast and convenient access to information about which of our solutions may help you. Take a few minutes to answer questions about your export status, and get a diagnostic summary outlining potential EDC solutions available for your exporting needs. **www.edc.ca/advisor**

Are you ready to enter the export market?
Test your readiness by completing EXPORT*Able?*, an online questionnaire to help you prepare for your entry into foreign markets.
www.edc.ca/exportable

Do you need to make a claim?
EDC has an online tool called eExpress Claims that Accounts Receivable Insurance customers can use to file claims up to $5,000. To access this tool, register with EDC Direct, the customer-only section of EDC's website, by calling your underwriter or the EDC Help Desk at 1-888-649-8287 weekdays from 8 a.m. to 6 p.m. EST. For claims above $5,000 and general claims information, call one of EDC's Claims Services Managers at 1-866-638-7946 or
visit us at www.edc.ca/claims.

Financing

Are your shipments getting delayed at the U.S. border for security reasons?
If you ship to the United States, you need to understand how the Customs-Trade Partnership Against Terrorism (C-TPAT) can affect your business. EDC has developed a loan program to help Canadian companies fund the costs of upgrading their security to become C-TPAT compliant.

Want to turn your export sale into a cash sale?
EDC offers a range of financing solutions for foreign buyers of Canadian capital goods and related services. Generally, our financing solutions provide one- to 10-year coverage for up to 85 per cent of the value of your sale.

EDC also has pre-arranged Lines of Credit with foreign banks, institutions, and purchasers under which foreign customers can borrow the necessary funds to purchase Canadian capital goods and services.

In partnership with Northstar Trade Finance, EDC can also provide fast and efficient medium-term foreign buyer financing for smaller capital goods export transactions. **www.northstar.ca**.

For information on these and other financing products, visit **www.edc.ca/financing**.

Bonding

What if my buyer demands a bond?
You can get bonds issued by either your bank (standby letters of credit or letters of guarantee) or a surety company (surety bonds). EDC can help you get those bonds by issuing a guarantee to your bank or by providing up to 100 per cent reinsurance to your surety company.

For information on these and other working capital solutions, visit **www.edc.ca/bonding**.

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From the Editor

Michael Toope,
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EDC's commitment to facilitating environmental leadership

This past June, EDC and the University of Waterloo (UW) announced the creation of a new research chair, funded by EDC, to identify financial products and practices that will help companies engage in business practices such as socially responsible investing and integrate social and environmental performance measures into their business activities.

The EDC Chair in Environmental Finance, based in the University's Centre for Environment and Business, will also help businesses identify new ways to commercialize "green" technologies and services as well as explore carbon financing and clean energy funds.

The funding of this Chair is part of EDC's longstanding commitment to promoting a trade culture in Canada in partnership with Canada's universities. Since 2001, EDC's Education and Youth Employment (EYE) program has invested millions of dollars in scholarships, event sponsorships, and course development to help tomorrow's business leaders discover the global opportunities available to them.

The EDC Chair will be reserved for an expert who has made a strong contribution to studies in environment, business and finance. UW will also hire an additional professor in a related field, to further expand its Centre for Environment and Business.

"There has been an explosion of 'green' in the marketplace. The EDC Chair will build on that demand and identify tools companies can use to address environmental issues such as climate change and environmental sustainability in emerging markets, while expanding their own business opportunities," said Deep Saini, Dean of the Faculty of Environment.

"This initiative strengthens EDC's commitment to facilitating environmental leadership by Canadian firms," said Eric Siegel, EDC President and CEO. "We are proud to be associated with the University of Waterloo in meeting a growing need of Canadian companies to integrate environmental and business issues."

The University of Waterloo has been ranked Canada's most innovative university for more than 15 years and is the largest co-op university in the world. ■

Trade Resources

A list of associations and government agencies dedicated to helping Canadian businesses succeed.

Provincial Government Agencies

ALBERTA

Trade Team Alberta:
www.alberta-canada.com/tta

TTA is a partnership of the Governments of Canada and Alberta, working to enhance international business opportunities for Albertans.

MANITOBA

MTI: Manitoba Trade and Investment:
www.gov.mb.ca/trade

MTI's mission is to help build the Manitoba economy through increased exports and by attracting and retaining foreign direct investment.

NEW BRUNSWICK

Business New Brunswick – Export Development Branch:
www.gnb.ca/0398/export/index-e.asp

Business New Brunswick's Export Development Branch specializes in counselling and other services to export-ready companies and existing exporters.

NEWFOUNDLAND AND LABRADOR

www.gov.nf.ca/doingbusiness

A gateway to online information for business, start-up, operations, relocating to the province, investments and exporting.

NOVA SCOTIA

Nova Scotia Business Inc.:
www.novascotiabusiness.com

NSBI offers many export development programs and services for small- to medium-sized businesses and local exporters entering new markets.

ONTARIO

International Trade Development:
www.ontarioexports.com

The International Trade Branch of the Investment and Trade Division helps Ontario firms grow, prosper and create jobs through international trade.

PRINCE EDWARD ISLAND

PEI Business Development:
www.peibusinessdevelopment.com

The Trade, Marketing and Communications Division is responsible for the identification and pursuit of trade and export opportunities for Prince Edward Island business.

QUEBEC

Services for businesses:
www.entreprises.gouv.qc.ca

Information for investors, immigrants, entrepreneurs and future exporters of Quebec.

Investissement Québec:
www.investquebec.com/en

Its financing products work for companies, cooperative businesses and non-profit organizations from start-up, expansion, export, R&D activities, merger and acquisition.

SASKATCHEWAN

STEP: Saskatchewan Trade & Export Partnership:
www.sasktrade.sk.ca

STEP was created to provide trade development, custom market research and access to export financing for exporters in the province.

Federal Government Agencies

Business Development Bank of Canada (BDC):
www.bdc.ca

BDC plays a leadership role in delivering financial, investment and consulting services to Canadian small businesses, with a particular focus on the technology and export sectors of the economy.

Canada Business:
www.cbsc.org

Canada Business reduces the complexity of dealing with various levels of government by serving as a single point of access for federal and provincial/territorial government services, programs and regulatory requirements.

Canadian Commercial Corporation (CCC):
www.ccc.ca

The CCC serves as an effective Canadian trade instrument, bringing buyers and sellers together and closing successful export contracts on the best possible terms and conditions.

Canadian Consular Affairs Bureau:
www.voyage.gc.ca

The Consular Affairs Bureau provides information and assistance services to Canadians living and travelling abroad.

Foreign Affairs & International Trade Canada:
www.international.gc.ca

DFAIT supports Canadians abroad; helps Canadian companies succeed in global markets; promotes Canada's culture and values; and works to build a more peaceful, secure world.

Team Canada Inc.:
www.exportsource.ca

Team Canada Inc's website is Canada's most comprehensive source of information and practical tools for new or experienced exporters.

Associations

Canadian Manufacturers and Exporters:
www.cme-mec.ca

Canada's largest trade and industry association, CME promotes the continuous improvement of Canadian manufacturing and exporting through engagement of government at all levels.

Canadian Chamber of Commerce:
www.chamber.ca

As the national leader in public policy advocacy on business issues, the Canadian Chamber of Commerce's mission is to foster a strong, competitive, and profitable economic environment that benefits not only business, but all Canadians.

Canadian Federation of Independent Business:
www.cfib.ca

CFIB has been a big voice for small business for 35 years with 105,000+ members nationwide in every sector.

Canadian Association of Importers and Exporters
www.importers.ca

I.E. Canada represents and educates importers and exporters and advocates on their behalf to influence change. Membership includes importers, exporters, distributors and agents as well as custom brokers, lawyers, accountants, freight and shipping companies, airlines, banks and foreign trade promotion offices.

Contacts

Companies with total annual sales of up to $5 million can call EDC's team of small business specialists at

1-888-332-9398.

Companies with total annual sales of more than $5 million can call the nearest EDC regional office at

1-888-332-3777.

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Contact trade commissioners in the United States and in 140 other offices around the world thanks to the Virtual Trade Commissioner! This useful tool provides you with direct access to the Trade Commissioner Service, as well as its partners' services, including EDC. To register, please visit **www.infoexport.gc.ca**.